

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Implement the  
Commission's Procurement Incentive Framework and  
to Examine the Integration of Greenhouse Gas  
Emissions Standards into Procurement Policies.

Rulemaking 06-04-009  
(Filed April 13, 2006)

**COMMENTS OF THE  
CALIFORNIA MANUFACTURERS & TECHNOLOGY ASSOCIATION  
ON ALJ's RULING REQUESTING COMMENTS ON TYPE AND POINT OF  
REGULATION ISSUES FOR THE NATURAL GAS SECTOR**

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December 17, 2007

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In accordance with the schedule established in the ALJ's Rulings, the California Manufacturers & Technology Association (CMTA) hereby submits its comments on regulatory issues that will arise from the inclusion of natural gas in the overall AB 32 GHG program. CMTA was an active participant in the legislative process that produced AB 32 and remains active in the regulatory process that the California Air Resources Board is currently conducting to implement the statutory mandates.

**Response to Sections 3.1 and 3.2 of the Ruling:** CMTA's overriding concern is that the Commission recognize that there are fundamental differences in regulating GHG emissions between the natural gas and electric sectors. Attempting to simply use the same "template" for the natural gas sector as is applied to electric would be misguided and likely would lead to significant economic dislocations. While it is true that the combustion of natural gas produces GHGs, the fact is that natural gas is a clean, premiere fuel, both with respect to GHG emissions and criteria pollutants. Natural gas is recognized to be a low carbon fuel in comparison to other fossil fuel types. Unlike the electricity sector, there are not commercially available substitutes for gas in thermal processes essential to manufacturing, nor are there clean renewable resources

that can be substituted for natural gas uses. Although biogas holds some potential (not as a lower carbon fuel, but by reducing overall methane), there are a host of technological and environmental obstacles to overcome before this resource can be commercialized.

Further, many thermal processes in manufacturing are already highly efficient. The direct combustion of natural gas is certainly more efficient than the equivalent amount of electricity needed to produce the same useful work. It is important that policymakers refrain from creating perverse incentives to fuel-switch from natural gas to electricity, with the concomitant loss of efficiency.

CMTA recognizes that the potential exists for further energy efficiency improvements in the natural gas sector. However, we also believe it is highly unlikely that there is an economic, technological “fix” commercially available for thermal applications on the scale necessary to attain the environmental goals envisioned by AB 32 and at the same time allow manufacturing and other thermal processes to continue to operate without impairing production.

Among the principles listed in the Ruling, CMTA believes that environmental integrity is the single most important principle that the Commission must keep in the forefront as it evaluates all the options going forward. For example, it would make no sense to take action that would reduce natural gas deliveries to end use customers in California if that would merely translate into increased consumption in other parts of the U.S. and the world to produce the same level of goods and services.

Cost minimization is the second key principle. Not only is it the Commission’s duty to ensure that ratepayers receive reliable service at reasonable prices, but it is also important to recognize that most of the environmental improvements in California and elsewhere have been

funded by an expanding economy. Levying additional economic burden upon energy rates will have the effect of drying up capital for other needed investments in the economy.

We also view expandability as a cornerstone of any program to be adopted in California. The California approach should be acceptable to the rest of the region, and should also be flexible enough to fit within a national program. The State should be intent on creating a regulatory approach that is seamless when either a regional or national approach is overlaid upon the AB 32 framework.

**Response to Section 3.3 of the Ruling:** Although CMTA generally supports a cap-and-trade approach, some consideration should be given to a programmatic approach on natural gas before making natural gas a capped sector. The CEC currently has authority, and continues to take action, to improve the efficiency standards for gas-consuming appliances. The CPUC has announced a “Big Bold Energy Strategy” for energy efficiency investments, which should be further tweaked to accent incentives and programs aimed at natural gas end uses. Additional initiatives such as on-bill financing for energy efficiency investments, rebates and removing barriers to allow combined heat and power projects to achieve their market potential.

Concentrating on achieving more ambitious programmatic goals will also allow time for enactment and development of a regional or federal GHG program. These programmatic improvements will avoid the possibility of leakage and economic uncertainty that may result from any attempt to cap the natural gas sector at this time.

Imposing caps, whether at the pipeline level, distribution utility level, or the individual end use customer level, could result in major dislocations. In the case of industrial customers, if a cap is applied directly to the end-use customer’s usage, there are few demonstrated options available that allow the customer to maintain his current level of operations. If the cap is applied

to the local distribution utility, the utility could find itself in a no-win situation attempting to allocate supplies under the cap among its customers. CMTA urges the CPUC, the CEC and CARB to seriously evaluate the feasibility of any proposed emission reduction strategy for natural gas

**Response to Section 3.4 of the Ruling:** In terms of the point of regulation, CMTA generally believes that it should be as far upstream as possible. In the electric sector, this translates into regulating at the generator level or first sale point. However, since – unlike electricity – the production of natural gas does not generate the bulk of the GHG’s and since most of the natural gas production occurs outside California, a point of regulation further downstream is logical. Nevertheless, CMTA is opposed to a point of regulation at the customer or load level. Given the lack of less carbon-intensive substitutes for natural gas, regulation at the end use level most likely would translate directly into economic dislocations. CMTA believes that the point of regulation should be at the Local Distribution Company (LDC) level. The LDC is in the best position to manage a portfolio of resources and to target energy efficiency investment to applications that will achieve the greatest improvement at the least cost. The LDC also can deploy any substitutes for natural gas as technological improvements, such as biogas, are more readily available to the market. Making the LDC the point of regulation also serves to fairly allocate the costs of GHG compliance among all customers. LDC’s or other LSE’s should not be placed in the position of having to curtail deliveries of natural gas to customers. Instead, the focus of the Commission and CEC should be on programmatic initiatives to increase energy efficiency and conservation. The Commission should have the primary responsibility for overseeing the implementation of these programs by the LDC’s. In sum, should a cap-and-trade

mechanism be approved for the natural gas sector, the LDC should be the point of regulation for all customers, except any large loads directly regulated by CARB.

**Response to Section 3.5 of the Ruling:** CMTA believes that deferral of a cap-and-trade system until a regional or national place is in place makes sense, in particular, for the natural gas sector. CMTA believes that it is important to have a robust cap-and-trade system and that implementing such a program over a region or the entire nation will best achieve that.

**Response to Section 3.6 of the Ruling:** As discussed above, it is important to recognize the fundamental differences between the natural gas and electric sectors. Although CMTA generally supports a cap-and-trade system for both, it may be appropriate to proceed first with the electric sector. Moreover, there is no logical reason why the point of regulation should be the same, given the fundamental differences in the two sectors. As far as CHP is concerned, CMTA submits that emissions from these sources should be regulated as part of the electric sector.

In conclusion, CMTA respectfully requests that the Commission proceed in accordance with the above recommendations in reducing GHG emissions in the natural gas sector.

Respectfully submitted,



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December 17, 2007

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the foregoing “Comments of the California Manufacturers & Technology Association on ALJ’s Ruling Requesting Comments on Type and Point of Regulation Issues for the Natural Gas Sector” upon each person designated on the official service list compiled in this proceeding.

Dated at Washington, D.C. this 17<sup>th</sup> day of December, 2007.



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